

**MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)**

**INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2014 AND 2013

MAHASKA HEALTH PARTNERSHIP

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MAHASKA HEALTH PARTNERSHIP
Officials
June 30, 2014

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Paul Swenson, Chairman	Oskaloosa, Iowa	2014
Becky Siefering, Vice-Chairman	Oskaloosa, Iowa	2018
Mary Sexton, Secretary	Rose Hill, Iowa	2014
David Langkamp, Treasurer	Oskaloosa, Iowa	2016
Jim Hansen	Oskaloosa, Iowa	2018
Mike Grim	Oskaloosa, Iowa	2014
Amy McGriff	New Sharon, Iowa	2016

Chief Executive Officer:

Jay Christensen	Oskaloosa, Iowa
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Chief Financial Officer:

Jon Davis	Oskaloosa, Iowa
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Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Mahaska Health Partnership
Oskaloosa, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Mahaska Health Partnership (Hospital) and its discretely presented component unit, Mahaska Health Partnership Foundation (Foundation) as of June 30, 2014 and 2013, and related notes to the financial statements, which collectively comprise the Hospital's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Mahaska Health Partnership

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion the financial statements referred to above present fairly in all material respects, the financial position of Mahaska Health Partnership and Mahaska Health Partnership Foundation as of June 30, 2014 and 2013 and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note P to the financial statements, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*, during the year ended June 30, 2014. The adoption of GASB Statement No. 61 resulted in reporting the Foundation as a discretely presented component unit rather than a blended component unit as was previously presented in the 2013 financial statements. Accordingly amounts have been restated in the 2013 financial statements now presented.

Other Matters

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 3 through 3d and on page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Mahaska Health Partnership's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2012 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information on pages 1 and 30 through 45 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees
Mahaska Health Partnership

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 14, 2014 on our consideration of Mahaska Health Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Gunnwald, Ben, Kyhn & Co., P.C.

Atlantic, Iowa
November 14, 2014



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Mahaska Health Partnership Management's Discussion and Analysis

Our discussion and analysis of Mahaska Health Partnership (Hospital's) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2014, 2013, and 2012. Please read it in conjunction with the Hospital's financial statements, which begin on page 4.

Please note that the Foundation's activities have been included as a discretely presented component unit of the Hospital.

FINANCIAL HIGHLIGHTS

The Hospital's net position decreased in 2014 and increased in 2013 with a \$25,118 or 0.1% decrease in 2014 and a \$1,319,144 or 3.9% increase in 2013.

The Hospital reported operating losses in 2014 (\$1,929,048) and 2013 (\$1,003,198). Losses in 2014 increased by \$925,850 from the loss reported in 2013. Operating losses in 2013 decreased by \$82,828 from the loss reported in 2012.

Nonoperating revenues decreased by \$418,412 in 2014 compared to 2013.
Nonoperating revenues increased by \$392,169 in 2013 compared to 2012.

Excess revenues over expenses decreased by \$1,344,262 or 101.9% in 2014 compared to 2013 and increased by \$474,997 or 56.2% in 2013 compared to 2012.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Our analysis of the Hospital finances begins on page 3a. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position - the difference between assets, liabilities, and deferred revenues - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets, liabilities, and deferred inflows of resources reported in the Statement of Net Position on page 4. The Hospital's net position decreased by \$25,118 in 2014 and increased by \$1,319,144 in 2013, as you can see from Table 1.

Table 1: Assets, Liabilities, Deferred Inflows of Resources, and Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current assets	\$ 17,239,555	\$ 14,833,773	\$ 13,054,864
Capital assets, net	40,593,077	40,526,354	29,599,675
Other noncurrent assets	<u>6,374,272</u>	<u>5,105,249</u>	<u>4,926,748</u>
Total assets	<u>\$ 64,206,904</u>	<u>\$ 60,465,376</u>	<u>\$ 47,581,287</u>
Liabilities:			
Long-term debt outstanding	\$ 23,015,000	\$ 16,374,894	\$ 5,550,607
Current liabilities	<u>4,268,285</u>	<u>7,170,725</u>	<u>8,628,139</u>
Total liabilities	<u>\$ 27,283,285</u>	<u>\$ 23,545,619</u>	<u>\$ 14,178,746</u>
Deferred Inflows of Resources	<u>\$ 2,227,052</u>	<u>\$ 2,198,072</u>	<u>\$ --</u>
Net Position:			
Invested in capital assets, net of related debt	\$ 17,567,023	\$ 20,529,000	\$ 20,676,357
Restricted expendable assets	1,000,000	1,000,000	1,000,000
Restricted nonexpendable permanent endowments	6,000	6,000	6,000
Unrestricted	<u>16,123,544</u>	<u>13,186,685</u>	<u>11,720,184</u>
Total net position	<u>\$ 34,696,567</u>	<u>\$ 34,721,685</u>	<u>\$ 33,402,541</u>

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2014, the Hospital's net position decreased by \$25,118 or 0.1%, as shown in Table 2. This decrease is made up of various different components.

Table 2: Operating Results and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues:			
Net patient service revenues	\$ 48,627,786	\$ 39,414,278	\$ 36,150,097
Other operating revenues	<u>684,370</u>	<u>598,992</u>	<u>373,521</u>
Total operating revenues	49,312,156	40,013,270	36,523,618
Operating Expenses:			
Salaries and benefits	33,811,256	26,704,290	24,708,779
Professional fees	1,175,483	1,101,375	934,750
Other operating expenses	13,211,168	11,236,696	10,093,464
Depreciation and amortization	<u>3,043,297</u>	<u>1,974,107</u>	<u>1,872,651</u>
Total operating expenses	51,241,204	41,016,468	37,609,644
Operating loss	(1,929,048)	(1,003,198)	(1,086,026)
Nonoperating Revenues and Expenses:			
Property taxes	1,914,302	1,913,972	1,914,443
Investment income	13,642	19,024	27,452
Noncapital grants and contributions	418,909	306,403	255,453
Other nonoperating revenues and expenses, net	<u>(442,923)</u>	<u>82,943</u>	<u>(267,175)</u>
Nonoperating revenues, net	1,903,930	2,322,342	1,930,173
Excess of Revenues Over Expenses (Expenses Over Revenues) and Increase (Decrease) in Net Position	(25,118)	1,319,144	844,147
Net Position Beginning of Year	<u>34,721,685</u>	<u>33,402,541</u>	<u>32,558,394</u>
Net Position End of Year	<u>\$ 34,696,567</u>	<u>\$ 34,721,685</u>	<u>\$ 33,402,541</u>

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2014 was prepared on a modified accrual basis. The original budget of expenditures was approved at the meeting on February 25, 2013. Actual expenditures were lower than budget.

OPERATING LOSSES

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally, the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating loss. Losses in 2014 increased by \$925,850 compared to the loss reported in 2013.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Hospital, investment earnings and noncapital contributions. Total nonoperating revenues decreased by \$418,412 compared to 2013.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A of the financial statements. The foundation received \$124,486 in 2014 in contributions to be used for the Hospital's construction project and hospice house funding.

THE HOSPITAL'S CASH FLOWS

The Hospital's Statement of Cash Flows is an analytical tool useful in determining the short-term viability of the organization. The statement includes only cash inflows and outflows of cash and cash equivalents; it excludes transactions that do not directly affect cash receipts and payments (i.e., depreciation, bad debt write-offs). Total cash and cash equivalents at June 30, 2014 was \$6,572,350 compared to \$7,069,223 at June 30, 2013.

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2014, the Hospital had approximately \$40.6 million invested in capital assets, net of accumulated depreciation, as detailed in Note H to the financial statements. The Hospital completed the construction of an addition to the Hospital during the fiscal year. The total cost of the buildings, land improvements, and equipment placed in service during the year was approximately \$23 million.

Debt:

At year-end, the Hospital had approximately \$23.0 million in notes payable outstanding. A detail of long term debt is provided in Note I to the financial statements. The Hospital borrowed additional debt to finance its building and renovation project. The total additional debt is approximately \$23 million. All the proceeds have been drawn as of June 30, 2014.

OTHER ECONOMIC FACTORS

The Hospital is dependent upon payments from Medicare, Medicaid and other third-party payers. Each of these payers has continued to put pressure on reimbursement levels paid to the hospital. Medicare represents nearly 37% of hospital revenues and presently reimburses the hospital approximately 55% of billed charges.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Executive Officer, at Mahaska Health Partnership, Oskaloosa, Iowa 52577.

MAHASKA HEALTH PARTNERSHIP
Statements of Net Position
June 30,

ASSETS

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Current Assets:		
Cash	\$ 1,073,128	\$ 2,303,763
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$4,781,000 in 2014, \$3,876,000 in 2013)	12,241,427	8,129,982
Other receivables	540,668	19,070
Inventory	1,163,871	1,122,398
Prepaid expense	193,407	164,560
Estimated third-party payor settlements	9,000	94,000
Succeeding year property tax receivable	1,807,000	1,800,000
Internally designated assets	<u>211,054</u>	<u>1,200,000</u>
Total current assets	17,239,555	14,833,773
Designated and Restricted Assets:		
Internally designated assets	4,499,222	5,029,025
Restricted assets	<u>1,006,000</u>	<u>1,006,000</u>
	5,505,222	6,035,025
Less amounts required to meet current liabilities	<u>211,054</u>	<u>1,200,000</u>
	5,294,168	4,835,025
Capital Assets:		
Depreciable capital assets	38,913,841	20,115,235
Non-depreciable capital assets	<u>1,679,236</u>	<u>20,411,119</u>
	40,593,077	40,526,354
Other Assets:		
Notes receivable	436,571	243,380
Other	<u>643,533</u>	<u>26,844</u>
	1,080,104	270,224
Total assets	<u>\$ 64,206,904</u>	<u>\$ 60,465,376</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Current Liabilities:		
Current maturities of long-term debt	\$ --	\$ 2,223,892
Accounts payable	860,261	1,968,355
Accrued employee compensation	2,475,646	2,218,388
Accrued payroll taxes and withholding	707,205	560,090
Accrued health insurance claims	200,000	200,000
Accrued interest payable	25,173	--
Total current liabilities	<u>4,268,285</u>	<u>7,170,725</u>
Long-Term Debt:		
Revenue bonds and notes payable, less		
current maturities	<u>23,015,000</u>	<u>16,374,894</u>
Total liabilities	<u>27,283,285</u>	<u>23,545,619</u>
Deferred Inflows of Resources:		
Deferred revenue	2,227,052	2,198,072
Net Position:		
Invested in capital assets, net of related debt	17,567,023	20,529,000
Restricted	1,006,000	1,006,000
Unrestricted	<u>16,123,544</u>	<u>13,186,685</u>
Total net position	<u>34,696,567</u>	<u>34,721,685</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 64,206,904</u>	 <u>\$ 60,465,376</u>

MAHASKA HEALTH PARTNERSHIP
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30,

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Revenue:		
Net patient service revenue	\$ 48,627,786	\$ 39,414,278
Other revenue	<u>684,370</u>	<u>598,992</u>
Total revenue	49,312,156	40,013,270
Expenses:		
Nursing service	10,851,734	9,558,134
Other professional service	25,111,949	18,900,101
General service	3,157,866	3,038,950
Fiscal and administrative service	9,076,358	7,545,176
Provision for depreciation	2,896,475	1,974,107
Amortization	<u>146,822</u>	<u>--</u>
Total expenses	<u>51,241,204</u>	<u>41,016,468</u>
Operating Loss	(1,929,048)	(1,003,198)
Non-Operating Revenue (Expenses):		
County taxes	1,914,302	1,913,972
County subsidy - New Directions	93,153	13,187
Investment income	13,642	19,024
Noncapital grants and contributions	418,909	306,403
Retail pharmacy income, net	637,804	--
Rental income	72	128,146
Interest expense	(551,255)	(2,807)
Loss on disposal of assets	<u>(622,697)</u>	<u>(55,583)</u>
Non-operating revenue, net	<u>1,903,930</u>	<u>2,322,342</u>
Excess of Revenues Over (Under) Expenses and Increase (Decrease) in Net Position	(25,118)	1,319,144
Net Position Beginning of Year	<u>34,721,685</u>	<u>33,402,541</u>
Net Position End of Year	<u>\$ 34,696,567</u>	<u>\$ 34,721,685</u>

The accompanying notes are an integral part of these statements.

MAHASKA HEALTH PARTNERSHIP
Statements of Cash Flows
Year ended June 30,

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 44,536,287	\$ 38,588,977
Cash paid to suppliers	(20,681,698)	(17,514,589)
Cash paid to employees	(26,897,723)	(21,126,861)
Other revenue	684,370	598,992
Net cash provided by (used in) operating activities	(2,358,764)	546,519
Cash flows from non-capital financing activities:		
County tax revenue and subsidy	2,007,455	1,927,159
Noncapital grants and contributions	418,909	306,403
Net cash provided by non-capital financing activities	2,426,364	2,233,562
Cash flows from capital and related financing activities:		
Capital expenditures	(5,241,764)	(13,519,686)
Change in other assets	(763,511)	(563)
Interest paid	(622,291)	(225,011)
Principal paid on long-term debt	(21,575,844)	(1,196,871)
Proceeds on notes payable	25,992,058	13,047,735
Proceeds on sale of assets	--	11,500
Net cash used in capital and related financing activities	(2,211,352)	(1,882,896)
Cash flows from investing activities:		
Investment income	13,642	19,024
Change in designated and restricted assets	1,263,565	(5,662)
Loans granted for physician recruitment	(268,204)	(186,100)
Retail pharmacy income, net	637,804	--
Rental income	72	128,146
Net cash provided by (used in) investing activities	1,646,879	(44,592)
Net increase (decrease) in cash and cash equivalents	(496,873)	852,593
Cash and cash equivalents at beginning of year	7,069,223	6,216,630
Cash and cash equivalents at end of year	<u>\$ 6,572,350</u>	<u>\$ 7,069,223</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 1,073,128	\$ 2,303,763
Cash and cash equivalents in designated and restricted assets	5,499,222	4,765,460
Total cash and cash equivalents	<u>\$ 6,572,350</u>	<u>\$ 7,069,223</u>

(continued next page)

MAHASKA HEALTH PARTNERSHIP
Statements of Cash Flows - Continued
Year ended June 30,

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$(1,929,048)	\$(1,003,198)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Provision for depreciation	2,896,475	1,974,107
Amortization	221,835	46,000
Changes in assets and liabilities		
Accounts receivable	(4,198,479)	(859,373)
Inventory	(41,473)	22,822
Prepaid expense	(28,847)	(27,941)
Accounts payable, trade	209,420	(250,494)
Accrued employee compensation	257,258	351,944
Accrued payroll taxes and withholding	147,115	258,580
Estimated third-party payor settlements	85,000	(364,000)
Deferred revenue	21,980	398,072
Total adjustments	<u>(429,716)</u>	<u>1,549,717</u>
Net cash provided by (used in) operating activities	<u>\$(2,358,764)</u>	<u>\$ 546,519</u>

The accompanying notes are an integral part of these statements.

MAHASKA HEALTH PARTNERSHIP FOUNDATION
Balance Sheets
June 30,

ASSETS

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Assets:		
Cash	\$ 962,772	\$ 842,458
Equity securities	<u>91,319</u>	<u>74,555</u>
Total assets	<u>\$ 1,054,091</u>	<u>\$ 917,013</u>

LIABILITIES AND NET ASSETS

Net Assets:		
Restricted	<u>\$ 1,054,091</u>	<u>\$ 917,013</u>
Total liabilities and net assets	<u>\$ 1,054,091</u>	<u>\$ 917,013</u>

The accompanying notes are an integral part of these statements.

MAHASKA HEALTH PARTNERSHIP FOUNDATION
Statements of Activities and Changes in Net Assets
Year ended June 30,

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Revenues and Other Support:		
Restricted contributions	\$ 124,486	\$ 56,081
Investment income	<u>4,095</u>	<u>2,343</u>
Total revenue	128,581	58,424
Expenses:		
Transfers to Mahaska Health Partnership	<u>1,950</u>	<u>1,200</u>
Total expenses	<u>1,950</u>	<u>1,200</u>
Operating Income	126,631	57,224
Change in Unrealized Gains and Losses on Investments, Other Than Trading Securities	<u>10,447</u>	<u>7,843</u>
Change in Net Assets	137,078	65,067
Net Assets Beginning of Year	<u>917,013</u>	<u>851,946</u>
Net Assets End of Year	<u>\$ 1,054,091</u>	<u>\$ 917,013</u>

The accompanying notes are an integral part of these statements.

MAHASKA HEALTH PARTNERSHIP FOUNDATION
Statements of Cash Flows
Year ended June 30,

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Cash flows from operating activities:		
Cash received through contributions	\$ 122,173	\$ 56,081
Cash paid to suppliers and Hospital	(1,950)	(1,200)
Net cash provided by operating activities	<u>120,223</u>	<u>54,881</u>
Cash flows from investing activities:		
Purchase of equity securities	(4,004)	(2,261)
Investment income	<u>4,095</u>	<u>2,343</u>
Net cash provided by investing activities	<u>91</u>	<u>82</u>
Net increase in cash and cash equivalents	120,314	54,963
Cash and cash equivalents at beginning of year	<u>842,458</u>	<u>787,495</u>
Cash and cash equivalents at end of year	<u>\$ 962,772</u>	<u>\$ 842,458</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 126,631	\$ 57,224
Adjustments to reconcile operating income to net cash provided by operating activities		
Contributions received as securities	(2,313)	--
Investment income	<u>(4,095)</u>	<u>(2,343)</u>
Net cash provided by operating activities	<u>\$ 120,223</u>	<u>\$ 54,881</u>

The accompanying notes are an integral part of these statements.

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The organization includes a hospital foundation and is a critical access county hospital with related healthcare ancillary, outpatient, physicians clinics and psychiatric services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Mahaska Health Partnership Foundation (Foundation) has been identified as a legally separate component unit of the Hospital, and accordingly, the financial statements of the Foundation have been included as a discretely presented component unit on pages 8 through 10. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code. It was established to provide financial support to the Hospital.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including designated and restricted assets.

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital capitalized interest cost of \$96,209 in 2014 (\$225,011 in 2013).

9. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 420 hours. Any excess over 420 hours accumulated by the employee's anniversary date is lost. The computed amount of paid time off benefits earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note C.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

16. Net Position

Net position of the Hospital is classified in three components. *Invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* are noncapital assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net position* consists of the remaining net position that does not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

18. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68 "*Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27.*" This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the Hospital's proportionate share of the Iowa Public Employees Retirement System pension plan.

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare and Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2011. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE C - ENDOWMENTS AND RESTRICTED NET POSITION

Restricted expendable assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
<u>Hospital</u>		
Long-term debt	\$ <u>1,000,000</u>	\$ <u>1,000,000</u>
<u>Foundation</u>		
Capital acquisitions	\$ <u>1,054,091</u>	\$ <u>917,013</u>

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

	<u>2014</u>	<u>2013</u>
<u>Foundation</u>		
Purchase of capital assets and administrative expenses	\$ <u>1,950</u>	\$ <u>1,200</u>

Unless the contributor provides specific instructions, law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Board of Trustees is required to consider the Hospital's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE C - ENDOWMENTS AND RESTRICTED NET POSITION - Continued

The Board of Trustees has chosen to spend the investment income and appreciation on the endowment fund while maintaining adequate amounts of earnings to maintain the principal original value. Any decreases in principal value will be replaced by retaining income in future years to return the principal to its original value.

Restricted nonexpendable assets as of June 30, 2014 and 2013 represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the Hospital's permanent endowments are expendable to support these programs as established by the contributor:

<u>Hospital</u>	<u>2014</u>	<u>2013</u>
Purchase of capital assets	\$ 6,000	\$ 6,000

NOTE D - DESIGNATED ASSETS

Of the \$16,123,544 (\$13,186,685 as of June 30, 2013) of unrestricted net position as of June 30, 2014, \$4,499,222 (\$5,029,025 for 2013) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

<u>Hospital</u>	<u>2014</u>	<u>2013</u>
Operations	\$ 3,784,982	\$ 4,314,785
Employee health insurance	714,240	714,240
	<u>\$ 4,499,222</u>	<u>\$ 5,029,025</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2014 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	<u>2014</u>	<u>2013</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 4,499,222	\$ 3,765,460
Certificates of deposit	--	1,261,215
Interest receivable	--	2,350
	<u>\$ 4,499,222</u>	<u>\$ 5,029,025</u>
Restricted Assets:		
<u>Hospital</u>		
Cash and cash equivalents	\$ 1,000,000	\$ 1,000,000
U.S. treasury obligations	<u>6,000</u>	<u>6,000</u>
	<u>\$ 1,006,000</u>	<u>\$ 1,006,000</u>
<u>Foundation</u>		
Cash and cash equivalents	\$ 962,772	\$ 842,458
U.S. treasury obligations	<u>91,319</u>	<u>74,555</u>
	<u>\$ 1,054,091</u>	<u>\$ 917,013</u>

Interest rate risk. The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

NOTE F - FAIR VALUE MEASUREMENTS

The Hospital's investments are reported at fair value in the accompanying balance sheets. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Hospital uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Hospital measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 inputs were available to the Hospital, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Level 1 Fair Value Measurements

The fair value of equity securities is based on quoted net asset values of the shares held by the Hospital at year-end.

Level 3 Fair Value Measurements

The notes receivable are not actively traded and significant other observable inputs are not available. The fair value of the notes receivable is based on contract value. Management believes these values approximate current fair value.

The following tables set forth, by level within the fair value hierarchy, the Hospital's investments at fair value as of June 30, 2014 and 2013:

		Fair Value Measurements at Reporting Date Using:	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2014</u>	<u>Fair Value</u>		
<u>Hospital</u>			
U.S. treasury obligations	\$ 6,000	\$ 6,000	\$ --
Notes receivable	<u>436,571</u>	<u>--</u>	<u>436,571</u>
	<u>\$ 442,571</u>	<u>\$ 6,000</u>	<u>\$ 436,571</u>
<u>Foundation</u>			
Equity securities	<u>\$ 91,319</u>	<u>\$ 91,319</u>	<u>\$ --</u>

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE F - FAIR VALUE MEASUREMENTS - Continued

		Fair Value Measurements at Reporting Date Using:	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2013</u>	<u>Fair Value</u>		
<u>Hospital</u>			
U.S. treasury obligations	\$ 6,000	\$ 6,000	\$ --
Notes receivable	<u>243,380</u>	<u>--</u>	<u>243,380</u>
	<u>\$ 249,380</u>	<u>\$ 6,000</u>	<u>\$ 243,380</u>
<u>Foundation</u>			
Equity securities	<u>\$ 74,555</u>	<u>\$ 74,555</u>	<u>\$ --</u>

The following tables reconcile the beginning and ending balances of fair value measurements for the Hospital's level 3 assets using unobservable inputs for the years ended June 30, 2014 and 2013:

June 30, 2014

Beginning balance	\$ 243,380
Notes receivable advanced	268,204
Amortization of notes receivable	<u>(75,013)</u>
Ending balance	<u>\$ 436,571</u>

June 30, 2013

Beginning balance	\$ 103,280
Notes receivable advanced	186,100
Amortization of notes receivable	<u>(46,000)</u>
Ending balance	<u>\$ 243,380</u>

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Receivable from:		
Patients	\$ 3,362,628	\$ 2,181,535
Medicare	5,127,806	4,949,519
Medicaid	1,890,110	1,556,678
Blue Cross	2,828,670	1,758,630
Other commercial insurance carriers	1,828,513	1,322,005
Unbilled	1,810,878	--
Others	<u>173,822</u>	<u>237,615</u>
	17,022,427	12,005,982
Less allowances for doubtful accounts and contractual adjustments	<u>4,781,000</u>	<u>3,876,000</u>
	<u>\$ 12,241,427</u>	<u>\$ 8,129,982</u>

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2014 and 2013 were as follows:

<u>Cost</u>	<u>Balance 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2014</u>
Land Improvements	\$ 2,298,398	\$ 147,632	\$ --	\$ 2,446,030
Buildings	31,028,334	12,067,300	1,532,465	41,563,169
Major Movable Equipment	<u>13,192,057</u>	<u>10,467,410</u>	<u>639</u>	<u>23,658,828</u>
	46,518,789	22,682,342	1,533,104	67,668,027
<u>Depreciation</u>				
Land Improvements	872,332	129,271	--	1,001,603
Buildings	15,077,644	1,507,025	545,555	16,039,114
Major Movable Equipment	<u>10,453,578</u>	<u>1,260,179</u>	<u>288</u>	<u>11,713,469</u>
Total Depreciation	<u>26,403,554</u>	<u>2,896,475</u>	<u>545,843</u>	<u>28,754,186</u>
Depreciable Capital Assets, Net	<u>\$ 20,115,235</u>	<u>\$ 19,785,867</u>	<u>\$ 987,261</u>	<u>\$ 38,913,841</u>
Construction in Progress	\$ 19,852,383	\$ 3,170,928	\$ 21,902,811	\$ 1,120,500
Land	<u>558,736</u>	<u>--</u>	<u>--</u>	<u>558,736</u>
Total Non-depreciable Capital Assets	<u>\$ 20,411,119</u>	<u>\$ 3,170,928</u>	<u>\$ 21,902,811</u>	<u>\$ 1,679,236</u>

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE H - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2013</u>
Land Improvements	\$ 2,251,020	\$ 47,378	\$ --	\$ 2,298,398
Buildings	30,929,666	98,668	--	31,028,334
Major Movable Equipment	<u>12,414,243</u>	<u>1,049,514</u>	<u>271,700</u>	<u>13,192,057</u>
	45,594,929	1,195,560	271,700	46,518,789
<u>Depreciation</u>				
Land Improvements	757,990	114,342	--	872,332
Buildings	14,011,862	1,065,782	--	15,077,644
Major Movable Equipment	<u>9,864,212</u>	<u>793,983</u>	<u>204,617</u>	<u>10,453,578</u>
Total Depreciation	<u>24,634,064</u>	<u>1,974,107</u>	<u>204,617</u>	<u>26,403,554</u>
Depreciable Capital Assets, Net	<u>\$ 20,960,865</u>	<u>\$ (778,547)</u>	<u>\$ 67,083</u>	<u>\$ 20,115,235</u>
Construction in Progress	\$ 8,080,074	\$ 12,614,724	\$ 842,415	\$ 19,852,383
Land	<u>558,736</u>	<u>--</u>	<u>--</u>	<u>558,736</u>
Total Non-depreciable Capital Assets	<u>\$ 8,638,810</u>	<u>\$ 12,614,724</u>	<u>\$ 842,415</u>	<u>\$ 20,411,119</u>

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE I - LONG-TERM DEBT

A schedule of changes in the Hospital's long-term debt for the years ended June 30, 2014 and 2013 follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2014</u>	<u>Current Portion</u>
Long-Term Debt:					
Note payable, Midwest One Bank	\$ 1,967,984	\$ --	\$ 1,967,984	\$ --	\$ --
Note payable, US Bank	16,630,802	2,977,058	19,607,860	--	--
Bond payable, USDA Rural Development	<u>--</u>	<u>23,015,000</u>	<u>--</u>	<u>23,015,000</u>	<u>--</u>
Total Long-Term Debt	<u>\$ 18,598,786</u>	<u>\$ 25,992,058</u>	<u>\$ 21,575,844</u>	<u>\$ 23,015,000</u>	<u>\$ --</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Current</u>
	<u>2012</u>			<u>2013</u>	<u>Portion</u>
Long-Term Debt:					
Note payable, Midwest One Bank	\$ 3,164,855	\$ --	\$ 1,196,871	\$ 1,967,984	\$1,967,984
Note payable, US Bank	3,583,067	13,047,735	--	16,630,802	255,908
Refunding costs	<u>(2,807)</u>	<u>--</u>	<u>(2,807)</u>	<u>--</u>	<u>--</u>
Total Long-Term Debt	<u>\$ 6,745,115</u>	<u>\$ 13,047,735</u>	<u>\$ 1,194,064</u>	<u>\$ 18,598,786</u>	<u>\$2,223,892</u>

Total interest cost for the year ended June 30, 2014 was \$647,465 (\$227,818 in 2013). Interest of \$96,209 (\$225,011 in 2013) was capitalized as part of the cost of construction in progress.

Note Payable, Midwest One Bank

The note was in the name of the Mahaska Health Partnership through Midwest One Bank, Oskaloosa, Iowa office for the refinancing of the Series 2001 Bonds. Under terms of the note, principal and interest payments of \$105,441 were due monthly with an interest rate of 2.6%. The note matured with a balloon payment due January 15, 2014. It was refinanced from proceeds of the USDA Rural Development Bond. The Hospital had pledged all of its future revenues (net of certain expenses) to repay the note.

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE I - LONG-TERM DEBT - Continued

Note Payable, US Bank

In December, 2011, the Hospital issued \$21,250,000 of Hospital Revenue Notes. According to the Note documents, the Hospital drew the proceeds of the notes as construction progressed, up to an amount not exceeding \$21,250,000. The Hospital had drawn \$19,607,860 of the proceeds by January 21, 2014, at which time it was refinanced with the USDA Rural Development Bond. The note was in the name of Mahaska Health Partnership through US Bank, St. Louis, Missouri office to finance a portion of the construction and renovation of the existing facility. Under terms of the note, principal and interest payments were deferred until January 21, 2014 with interest being accumulated at 1.58%. The Hospital had pledged all of its future revenues (net of certain expenses) to repay the note.

Bond Payable, USDA Rural Development

The bond is in the name of the Mahaska Health Partnership through United States Department of Agriculture, Rural Development for the construction and renovation of the Hospital. Under terms of the note, interest only payments of \$83,909 are due monthly with an interest rate of 4.375% through January, 2016. Beginning February, 2016 principal and interest payments of \$132,402 are due monthly. The note matures January 21, 2039. The Hospital has pledged all of its future revenues (net of certain expenses) to repay the note.

The annual debt service on the bonds and notes is expected to require less than 61% of cash flow available for debt service. For the current year, debt service (excluding the US Bank note debt service) and cash flow available for debt service were approximately \$2,590,000 and \$4,267,000, respectively.

Scheduled principal and interest repayments on long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2015	\$ --	\$ 1,006,906	\$ 1,006,906
2016	244,240	1,005,132	1,249,372
2017	604,632	984,192	1,588,824
2018	631,622	957,202	1,588,824
2019	659,815	929,009	1,588,824
2020 - 2024	3,768,063	4,176,058	7,944,121
2025 - 2029	4,687,565	3,256,556	7,944,121
2030 - 2034	5,831,448	2,112,673	7,944,121
2035 - 2039	6,587,615	694,498	7,282,113
	<u>\$ 23,015,000</u>	<u>\$ 15,122,226</u>	<u>\$ 38,137,226</u>

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE J - DEFERRED INFLOWS OF RESOURCES

The deferred inflows of resources include electronic health records (EHR) incentive payments, grant funding from the county public health department, and deferred succeeding year property tax. The EHR revenue will be recognized over five years, as the related equipment is depreciated. The grant funds will be recognized as revenue when earned. The deferred succeeding property tax represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Amounts deferred and sources are listed below:

	<u>2014</u>	<u>2013</u>
Electronic health records incentive	\$ 404,000	\$ 356,000
Grant funding	16,052	42,072
Deferred succeeding year property tax	<u>1,807,000</u>	<u>1,800,000</u>
	<u>\$ 2,227,052</u>	<u>\$ 2,198,072</u>

NOTE K - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.95% of their annual salary and the Hospital is required to contribute 8.93% of annual covered payroll. Contribution rates are slightly higher when employees are performing emergency response services. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012, were approximately \$2,235,000, \$1,734,000, and \$1,505,000, respectively, equal to the required contributions for each year.

NOTE L - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's personnel department is responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE L - DEFERRED COMPENSATION PLAN - Continued

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2014 was \$469,609 (\$395,492 at June 30, 2013). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE M - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The self-insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are approximately 311 active employees and 6 retirees currently covered by the plan.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management had an actuarial valuation performed dated October 18, 2013. The actuarial report noted the unfunded actuarial accrued liability to be \$78,103. The annual required contribution for the year end June 30, 2014 is \$16,003. Management of the Hospital considers this OPEB obligation to be immaterial and has not recorded this liability in its statements of net position.

NOTE N - COMMITMENTS AND CONTINGENCIES

Notes Receivable

The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. The Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE N - COMMITMENTS AND CONTINGENCIES - Continued

Construction in Progress

Construction in progress at June 30, 2014 of \$1,120,500 consists of costs primarily related to the parking lot construction and Hospital Information System Migration. The total is expected to cost approximately \$1,200,000. The Hospital anticipates financing the construction project with internally generated funds.

Self-Funded Health Insurance

The Hospital has established a self-insured employee health insurance program. Under the self-insured plan, the Hospital pays claims up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2014, the Hospital has accumulated funds in excess of actual claims paid of \$714,240 (\$714,240 at June 30, 2013). These funds, shown under internally designated assets are to be used to pay claims as they are filed in the future. The estimated amount of unpaid claims at June 30, 2014 is \$200,000 (\$200,000 at June 30, 2013), which is reported under current liabilities.

Subsequent Event

Subsequent to year end, the Hospital entered into agreements for the purchase of equipment and property. Total commitment is approximately \$495,000, which will be financed with internally generated funds.

The Hospital has evaluated all subsequent events through November 14, 2014, the date the financial statements were available to be issued.

NOTE O - RECLASSIFICATION OF BALANCES

Certain titles and items on the statement of net position as of June 30, 2013 have been reclassified to be comparable to the amounts and titles reported at June 30, 2014. The changes had no effect on the total assets or the total of the combined liabilities, deferred inflows of resources, and net position of the Hospital.

NOTE P - EFFECT OF ADOPTING NEW ACCOUNTING STANDARD

The Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*, during the year ended June 30, 2014. The adoption of GASB Statement No. 61 resulted in reporting the Foundation as a discretely presented component unit rather than as a blended component unit of the Hospital as we previously recorded in the 2013 financial statements. Accordingly, amounts have been restated in the 2013 financial statements now presented.

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE P - EFFECT OF ADOPTING NEW ACCOUNTING STANDARD - Continued

The following is a summary of the effects of the restatements on the 2013 financial statements:

	<u>Amounts as Previously Reported</u>	<u>Change in Accounting Principle</u>	<u>Amounts as Restated</u>
<u>Hospital Statement of Net Position</u>			
Assets			
Restricted assets	\$ 1,923,013	\$(917,013)	\$ 1,006,000
Total assets	\$ 61,382,389	\$(917,013)	\$ 60,465,376
Liabilities, Deferred Inflows of Resources, and Net Position			
Net position			
Restricted	\$ 1,923,013	\$(917,013)	\$ 1,006,000
Total net position	\$ 35,638,698	\$(917,013)	\$ 34,721,685
Total liabilities, deferred inflows of resources, and net position	\$ 61,382,389	\$(917,013)	\$ 60,465,376
<u>Hospital Statement of Revenues, Expenses, and Changes in Net Position</u>			
Operating loss	\$(1,003,198)	\$ --	\$(1,003,198)
Non-operating revenues, net	2,331,328	(8,986)	2,322,342
Capital grants and contributions	56,081	(56,081)	--
Increase (decrease) in net position	\$ 1,384,211	\$(65,067)	\$ 1,319,144
Net position end of year	\$ 35,638,698	\$(917,013)	\$ 34,721,685

MAHASKA HEALTH PARTNERSHIP
Notes to Financial Statements
June 30, 2014 and 2013

NOTE P - EFFECT OF ADOPTING NEW ACCOUNTING STANDARD - Continued

	<u>Amounts as Previously Reported</u>	<u>Change in Accounting Principle</u>	<u>Amounts as Restated</u>
<u>Hospital Statement of Cash Flows</u>			
Net cash provided by operating activities	\$ 546,519	\$ --	\$ 546,519
Net cash provided by non-capital financing activities	2,232,362	1,200	2,233,562
Net cash used in capital and related financing activities	(1,826,815)	(56,081)	(1,882,896)
Net cash provided by investing activities	<u>(44,510)</u>	<u>(82)</u>	<u>(44,592)</u>
Net increase in cash and cash equivalents	907,556	(54,963)	852,593
Cash and cash equivalents beginning of year	<u>7,004,125</u>	<u>(787,495)</u>	<u>6,216,630</u>
Cash and cash equivalents end of year	<u>\$ 7,911,681</u>	<u>\$ (842,458)</u>	<u>\$ 7,069,223</u>

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MAHASKA HEALTH PARTNERSHIP
Budgetary Comparison Schedule
Year ended June 30, 2014

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustment results from accounting for debt proceeds, principal, interest, capital purchases, depreciation, and net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 1,914,302	\$ --	\$ 1,914,302
Other revenues	<u>49,301,784</u> <u>51,216,086</u>	<u>--</u> <u>--</u>	<u>49,301,784</u> <u>51,216,086</u>
Expenses	<u>51,241,204</u>	<u>--</u>	<u>51,241,204</u>
Net	(25,118)	--	(25,118)
Balance beginning of year	<u>33,715,685</u>	<u>1,006,000</u>	<u>34,721,685</u>
Balance end of year	<u>\$ 33,690,567</u>	<u>\$ 1,006,000</u>	<u>\$ 34,696,567</u>

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,914,302	\$ --	\$ 1,914,302	\$ 1,803,218
Other revenues	<u>49,301,784</u> <u>51,216,086</u>	<u>5,577,769</u> <u>5,577,769</u>	<u>54,879,553</u> <u>56,793,855</u>	<u>44,452,173</u> <u>46,255,391</u>
Expenses	<u>51,241,204</u>	<u>3,888,614</u>	<u>55,129,818</u>	<u>58,336,430</u>
Net	(25,118)	1,689,155	1,664,037	(12,081,039)
Balance beginning of year	<u>34,721,685</u>	<u>8,318,011</u>	<u>43,039,696</u>	<u>43,039,696</u>
Balance end of year	<u>\$ 34,696,567</u>	<u>\$ 10,007,166</u>	<u>\$ 44,703,733</u>	<u>\$ 30,958,657</u>

See Independent Auditor's Report.

SUPPLEMENTARY INFORMATION

MAHASKA HEALTH PARTNERSHIP
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2014</u>		<u>2013</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
Hospital				
0 - 30	\$ 9,161,110	53.8%	\$ 6,154,724	51.%
31 - 60	2,188,139	12.9	1,770,653	14.8
61 - 90	1,481,195	8.7	1,339,184	11.1
91 - 120	842,550	4.9	735,440	6.1
Over 121	<u>3,349,433</u>	<u>19.7</u>	<u>2,005,981</u>	<u>16.7</u>
	17,022,427	<u>100.0%</u>	12,005,982	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	1,280,000		619,000	
Allowance for contractual adjustments	<u>3,501,000</u>		<u>3,257,000</u>	
	<u>\$ 12,241,427</u>		<u>\$ 8,129,982</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Balance, beginning	\$ 619,000	\$ 779,000
Provision for bad debts	2,646,879	1,819,874
Recoveries of accounts previously written off	<u>432,712</u>	<u>465,733</u>
	3,698,591	3,064,607
Accounts written off	<u>2,418,591</u>	<u>2,445,607</u>
Balance, ending	<u>\$1,280,000</u>	<u>\$ 619,000</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Inventory/Prepaid Expense
June 30,

	<u>2014</u>	<u>2013</u>
<u>Inventory</u>		
Store room	\$ 135,244	\$ 129,394
Dietary	14,355	11,340
Pharmacy	249,356	184,071
Laboratory	84,519	100,890
Operating room	674,358	687,868
Radiology	<u>6,039</u>	<u>8,835</u>
	<u>\$ 1,163,871</u>	<u>\$ 1,122,398</u>
 <u>Prepaid Expense</u>		
Insurance	\$ 101,919	\$ 49,804
Dues and contracts	<u>91,488</u>	<u>114,756</u>
	<u>\$ 193,407</u>	<u>\$ 164,560</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Patient Service Revenue
Year ended June 30,

	2014	
	Inpatient	Outpatient
Daily Patient Services:		
Medical and surgical	\$ 3,533,807	\$ 1,238,302
Coronary care	145,667	915
Nursery	341,601	--
Obstetrics	409,855	148,545
Swing bed	--	--
Vision Quest	2,334,832	--
	<u>6,765,762</u>	<u>1,387,762</u>
Other Nursing Services:		
Operating and recovery rooms	1,129,240	6,825,882
Delivery and labor rooms	572,580	--
Central services and supply	2,715,496	1,846,248
Wound/ostomy care	5,504	98,932
Emergency services	197,593	4,314,499
Cardiac rehabilitation and stress test	5,901	340,556
	<u>4,626,314</u>	<u>13,426,117</u>
Other Professional Services:		
Emergency room physicians	56,155	2,569,845
Laboratory	1,066,596	8,237,168
Electrocardiology	--	--
Electroencephalography	--	--
Radiology	140,205	2,257,156
Ultrasound	64,410	705,598
Nuclear scanning	8,329	95,114
MRI scanning	177,331	1,753,999
CT scanning	368,709	3,752,738
Outsourced services	166,219	762,635
Pharmacy	2,422,001	3,972,572
Oncology	759	303,321
Anesthesiology	728,497	1,908,916
Respiratory therapy	1,050,407	1,018,974
Physical therapy	204,026	1,421,736
Occupational therapy	111,746	190,594
Speech therapy	145	39,894
Durable medical equipment	--	152,709
Massage therapy	--	29,979
Ambulance	207,052	2,123,866
Community health	--	1,377,838
Hospice	380,249	747,763
Occupational health	--	223,495
New Directions	113,768	1,775,474
Hospitalist	658,911	196,773
Physician clinics	1,556,147	14,164,361
	<u>9,481,662</u>	<u>49,782,518</u>
	<u>\$ 20,873,738</u>	<u>\$ 64,596,397</u>

See Independent Auditor's Report.

2014		2013
Swing Bed	Total	Total
\$ --	\$ 4,772,109	\$ 4,394,184
--	146,582	174,486
--	341,601	295,659
589	558,989	488,820
578,281	578,281	753,485
--	2,334,832	2,097,267
578,870	8,732,394	8,203,901
2,795	7,957,917	7,629,620
--	572,580	501,513
9,071	4,570,815	3,820,712
1,835	106,271	119,093
1,302	4,513,394	4,155,851
97	346,554	267,351
15,100	18,067,531	16,494,140
--	2,626,000	2,623,521
66,445	9,370,209	6,029,896
--	--	56,358
--	--	23,463
10,922	2,408,283	2,135,585
3,652	773,660	705,111
--	103,443	98,203
12,708	1,944,038	1,883,506
--	4,121,447	3,508,474
20,907	949,761	872,128
366,937	6,761,510	5,061,405
6,145	310,225	272,825
1,413	2,638,826	2,525,475
213,851	2,283,232	2,342,751
97,629	1,723,391	1,533,863
56,611	358,951	400,725
--	40,039	52,110
--	152,709	--
--	29,979	52,343
32,748	2,363,666	2,245,944
--	1,377,838	1,339,415
--	1,128,012	1,155,276
--	223,495	126,700
--	1,889,242	1,477,284
111,044	966,728	494,828
577	15,721,085	9,400,897
1,001,589	60,265,769	46,418,086
\$ 1,595,559	\$ 87,065,694	\$ 71,116,127

MAHASKA HEALTH PARTNERSHIP
Revenue and Related Adjustments
Year ended June 30,

	<u>2014</u>	<u>2013</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 87,065,694	\$ 71,116,127
Contractual adjustments	(35,265,788)	(29,293,005)
Charity care	(525,241)	(588,970)
Provision for bad debts	(2,646,879)	(1,819,874)
	<u>\$ 48,627,786</u>	<u>\$ 39,414,278</u>
 <u>Other Revenue</u>		
Cafeteria	\$ 266,492	\$ 254,185
Medical record transcripts	11,784	3,661
Outpatient clinics	89,261	74,762
Dietary services	71,696	69,528
Miscellaneous	<u>245,137</u>	<u>196,856</u>
	<u>\$ 684,370</u>	<u>\$ 598,992</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Nursing Service Expenses
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Administrative:		
Salaries and wages	\$ 328,921	\$ 299,696
Employee benefits	51,636	47,099
Supplies and other expense	<u>12,165</u>	<u>9,987</u>
	392,722	356,782
Medical and Surgical:		
Salaries and wages	2,429,429	2,189,798
Employee benefits	383,051	348,828
Supplies and other expense	<u>230,090</u>	<u>205,959</u>
	3,042,570	2,744,585
Obstetrics:		
Salaries and wages	727,544	639,808
Employee benefits	116,236	99,660
Supplies and other expense	<u>94,617</u>	<u>109,033</u>
	938,397	848,501
Vision Quest:		
Salaries and wages	867,925	838,190
Employee benefits	135,769	131,127
Purchased services	6,774	9,169
Supplies and other expense	<u>111,852</u>	<u>150,689</u>
	1,122,320	1,129,175
Operating and Recovery Rooms:		
Salaries and wages	863,305	766,983
Employee benefits	137,692	122,364
Supplies and other expense	<u>659,549</u>	<u>601,817</u>
	1,660,546	1,491,164
Central Services and Supply:		
Supplies and other expense	2,063,741	1,440,947

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MAHASKA HEALTH PARTNERSHIP
Nursing Service Expenses - Continued
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Wound/Ostomy Care:		
Salaries and wages	\$ 35,671	\$ 32,784
Employee benefits	5,878	5,256
Supplies and other expense	<u>10,605</u>	<u>12,619</u>
	52,154	50,659
Emergency Services:		
Salaries and wages	1,177,386	1,084,345
Employee benefits	190,472	175,881
Supplies and other expense	<u>109,153</u>	<u>138,466</u>
	1,477,011	1,398,692
Cardiac Rehabilitation:		
Salaries and wages	66,479	66,600
Employee benefits	10,648	10,445
Supplies and other expense	<u>25,146</u>	<u>20,584</u>
	<u>102,273</u>	<u>97,629</u>
	<u>\$ 10,851,734</u>	<u>\$ 9,558,134</u>

SUMMARY

Salaries and wages	\$ 6,496,660	\$ 5,918,204
Employee benefits	1,031,382	940,660
Supplies and other expense	<u>3,323,692</u>	<u>2,699,270</u>
	<u>\$ 10,851,734</u>	<u>\$ 9,558,134</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Other Professional Service Expenses
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Emergency Room Physicians:		
Salaries and wages	\$ 1,167,821	\$ 1,057,361
Employee benefits	150,332	130,409
Professional fees	26,030	60,425
Supplies and other expense	<u>20,958</u>	<u>14,424</u>
	1,365,141	1,262,619
Laboratory:		
Salaries and wages	589,321	433,890
Employee benefits	90,968	64,908
Purchased services	456,918	471,905
Supplies and other expense	<u>843,283</u>	<u>493,492</u>
	1,980,490	1,464,195
Electroencephalography and Electrocardiology:		
Salaries and wages	--	833
Employee benefits	--	126
Purchased services	<u>--</u>	<u>3,264</u>
	--	4,223
Oncology:		
Salaries and wages	162,111	154,758
Employee benefits	25,536	23,909
Supplies and other expense	<u>11,134</u>	<u>12,365</u>
	198,781	191,032
Radiology and Ultrasound:		
Salaries and wages	678,508	606,209
Employee benefits	108,114	94,219
Supplies and other expense	<u>565,095</u>	<u>584,573</u>
	1,351,717	1,285,001
Outsourced Services:		
Purchased services	262,496	238,436

(continued next page)

MAHASKA HEALTH PARTNERSHIP
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Pharmacy:		
Salaries and wages	\$ 268,042	\$ 284,751
Employee benefits	41,939	43,772
Drugs and other expense	<u>1,579,407</u>	<u>963,225</u>
	1,889,388	1,291,748
Anesthesiology:		
Salaries and wages	599,316	545,478
Employee benefits	69,819	66,148
Supplies and other expense	<u>73,723</u>	<u>78,420</u>
	742,858	690,046
Respiratory Therapy:		
Salaries and wages	420,081	407,870
Employee benefits	65,144	63,789
Professional fees	13,704	5,563
Supplies and other expense	<u>79,276</u>	<u>72,908</u>
	578,205	550,130
Physical Therapy:		
Professional fees	792,257	705,248
Supplies and other expense	<u>28,691</u>	<u>31,351</u>
	820,948	736,599
Speech Therapy:		
Salaries and wages	28,309	26,274
Employee benefits	4,758	4,197
Supplies and other expense	<u>1,705</u>	<u>2,770</u>
	34,772	33,241
Occupational Therapy:		
Professional fees	165,300	184,332
Supplies and other expense	<u>4,003</u>	<u>6,360</u>
	169,303	190,692
Ambulance:		
Salaries and wages	115,772	98,010
Employee benefits	19,879	17,092
Purchased services	3,140	991
Supplies and other expense	<u>56,543</u>	<u>73,137</u>
	195,334	189,230

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MAHASKA HEALTH PARTNERSHIP
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Community Health:		
Salaries and wages	\$ 850,201	\$ 828,728
Employee benefits	136,227	130,527
Purchased services	160,319	156,535
Supplies and other expense	<u>148,198</u>	<u>100,109</u>
	1,294,945	1,215,899
Hospice:		
Salaries and wages	910,146	820,304
Employee benefits	143,974	128,309
Supplies and other expense	<u>273,607</u>	<u>197,069</u>
	1,327,727	1,145,682
Medical Records:		
Salaries and wages	804,549	576,675
Employee benefits	124,978	88,628
Supplies and other expense	<u>110,589</u>	<u>55,756</u>
	1,040,116	721,059
Physician Clinics:		
Salaries and wages	7,216,184	4,601,776
Employee benefits	937,726	536,513
Supplies and other expense	<u>808,790</u>	<u>735,846</u>
	8,962,700	5,874,135
Outpatient Clinics:		
Salaries and wages	--	471
Employee benefits	--	75
Purchased services	--	285
Supplies and other expense	<u>5,174</u>	<u>--</u>
	5,174	831
Dietician Services:		
Salaries and wages	65,534	61,933
Employee benefits	10,523	9,951
Supplies and other expense	<u>461</u>	<u>2,436</u>
	76,518	74,320
New Directions:		
Salaries and wages	1,136,035	841,544
Employee benefits	179,699	133,033
Purchased services	13,384	15,121
Supplies and other expense	<u>80,898</u>	<u>119,641</u>
	1,410,016	1,109,339

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MAHASKA HEALTH PARTNERSHIP
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Hospitalist:		
Salaries and wages	\$ 852,131	\$ 353,856
Employee benefits	103,435	50,278
Supplies and other expense	<u>10,779</u>	<u>16,795</u>
	966,345	420,929
Occupational Health:		
Salaries and wages	137,942	64,562
Employee benefits	21,952	8,715
Purchased services	13,386	8,121
Supplies and other expense	<u>27,041</u>	<u>25,678</u>
	200,321	107,076
Employee Health:		
Salaries and wages	27,229	24,618
Employee benefits	4,258	3,774
Supplies and other expense	<u>8,695</u>	<u>9,261</u>
	40,182	37,653
Durable Medical Equipment:		
Salaries and wages	43,760	831
Employee benefits	7,048	126
Supplies and other expense	<u>83,343</u>	<u>114</u>
	134,151	1,071
Massage Therapy:		
Salaries and wages	53,334	53,605
Employee benefits	8,619	8,416
Supplies and other expense	<u>2,368</u>	<u>2,894</u>
	64,321	64,915
	<u>\$ 25,111,949</u>	<u>\$ 18,900,101</u>

SUMMARY

Salaries and wages	\$ 16,126,326	\$ 11,844,337
Employee benefits	2,254,928	1,606,914
Professional fees	997,291	955,568
Supplies and other expense	<u>5,733,404</u>	<u>4,493,282</u>
	<u>\$ 25,111,949</u>	<u>\$ 18,900,101</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
General Service Expenses
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Dietary:		
Salaries and wages	\$ 388,121	\$ 348,281
Employee benefits	61,075	55,444
Food	388,218	318,275
Supplies and other expense	<u>190,724</u>	<u>292,914</u>
	1,028,138	1,014,914
Operation of Plant:		
Salaries and wages	364,897	305,312
Employee benefits	58,284	48,407
Utilities	614,511	403,387
Supplies and other expense	<u>507,117</u>	<u>712,330</u>
	1,544,809	1,469,436
Environmental Services:		
Salaries and wages	329,332	301,522
Employee benefits	53,454	47,042
Supplies and other expense	<u>68,118</u>	<u>45,685</u>
	450,904	394,249
Laundry and Linen:		
Salaries and wages	80,249	110,700
Employee benefits	13,434	18,140
Supplies and other expense	<u>40,332</u>	<u>31,511</u>
	<u>134,015</u>	<u>160,351</u>
	<u>\$ 3,157,866</u>	<u>\$ 3,038,950</u>

SUMMARY

Salaries and wages	\$ 1,162,599	\$ 1,065,815
Employee benefits	186,247	169,033
Supplies and other expense	<u>1,809,020</u>	<u>1,804,102</u>
	<u>\$ 3,157,866</u>	<u>\$ 3,038,950</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Administrative:		
Salaries and wages	\$ 2,453,819	\$ 1,791,959
Employee benefits	376,554	267,886
Professional fees	178,192	145,807
Supplies and other expense	441,109	637,970
Purchased services	248,030	250,587
Travel and education	25,049	18,380
Telephone	9,467	9,499
Equipment rent	--	981
Dues, subscriptions and licenses	62,156	71,083
Collection fees	<u>142,920</u>	<u>142,100</u>
	3,937,296	3,336,252
Information Systems:		
Salaries and wages	384,744	346,538
Employee benefits	60,371	53,601
Purchased services	308,754	191,806
Supplies and other expense	<u>334,360</u>	<u>281,313</u>
	1,088,229	873,258
Purchasing:		
Salaries and wages	181,944	163,717
Employee benefits	27,776	25,467
Supplies and other expense	<u>78,610</u>	<u>64,200</u>
	288,330	253,384
Public Relations:		
Salaries and wages	151,720	148,925
Employee benefits	24,362	24,051
Supplies and other expense	<u>226,446</u>	<u>177,421</u>
	402,528	350,397
Human Resources:		
Salaries and wages	197,169	170,514
Employee benefits	31,294	26,904
Purchased services	19,488	16,634
Supplies and other expense	<u>39,466</u>	<u>44,040</u>
	287,417	258,092

(continued next page)

MAHASKA HEALTH PARTNERSHIP
Fiscal and Administrative Service Expenses - Continued
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Quality Management:		
Salaries and wages	\$ --	\$ 28,796
Employee benefits	--	4,889
Supplies and other expense	--	324
	<u> --</u>	<u> 34,009</u>
Employee Welfare:		
Unemployment tax	59,376	8,711
Group health and life insurance	2,312,742	1,838,698
Workers' compensation insurance	291,243	258,671
	<u> 2,663,361</u>	<u> 2,106,080</u>
Insurance:		
Insurance and bonding expense	<u> 409,197</u>	<u> 333,704</u>
	<u>\$ 9,076,358</u>	<u>\$ 7,545,176</u>

SUMMARY

Salaries and wages	\$ 3,369,396	\$ 2,650,449
Employee benefits	3,183,718	2,508,878
Professional fees	178,192	145,807
Supplies and other expense	<u> 2,345,052</u>	<u> 2,240,042</u>
	<u>\$ 9,076,358</u>	<u>\$ 7,545,176</u>

SUMMARY OF EXPENSES

Salaries and wages	\$ 27,154,981	\$ 21,478,805
Employee benefits	6,656,275	5,225,485
Professional fees	1,175,483	1,101,375
Supplies and other expense	<u> 13,211,168</u>	<u> 11,236,696</u>
	<u>\$ 48,197,907</u>	<u>\$ 39,042,361</u>

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Comparative Statistics
Year ended June 30,

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Acute Care:					
Admissions	1,239	1,092	1,094	1,208	1,126
Discharges	1,227	1,091	1,100	1,206	1,123
Patient days	3,985	3,593	3,616	3,954	3,738
Average length of stay	3.25	3.29	3.29	3.28	3.33
Average occupied beds	10.9	9.8	9.9	10.8	10.2
Vision Quest:					
Admissions	119	114	134	149	146
Discharges	120	114	134	150	147
Patient days	1,854	1,665	1,778	1,996	1,891
Average length of stay	15.48	14.61	13.27	13.31	12.86
Average occupied beds	5.1	4.7	4.9	5.5	5.2
Swing Bed:					
Admissions	212	248	257	314	262
Discharges	211	248	258	313	264
SNF days	1,069	1,297	1,591	1,616	1,456
Combined Average Occupied Beds	18.9	18.0	19.1	20.7	19.4
Nursery Days	461	399	357	425	421
Hospice House Days	910	978	1,069	876	--
Home Health Visits	16,989	16,418	14,798	16,126	15,300
Outpatient Occasions of Service	196,046	137,115	113,403	102,134	97,016

See Independent Auditor's Report.

MAHASKA HEALTH PARTNERSHIP
Comparative Statements of Net Position
June 30,

	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash	\$ 1,073,128	\$ 2,303,763
Receivables, net	12,782,095	8,149,052
Inventory	1,163,871	1,122,398
Prepaid expense	193,407	164,560
Estimated third-party payor settlements	9,000	94,000
Succeeding year property tax receivable	1,807,000	1,800,000
Internally designated assets	<u>211,054</u>	<u>1,200,000</u>
Total current assets	17,239,555	14,833,773
Other Assets:		
Designated and restricted assets, net	5,294,168	4,835,025
Capital assets, net	40,593,077	40,526,354
Other assets	<u>1,080,104</u>	<u>270,224</u>
Total other assets	<u>46,967,349</u>	<u>45,631,603</u>
	<u>\$ 64,206,904</u>	<u>\$ 60,465,376</u>
Current Liabilities:		
Current maturities of long-term debt	\$ --	\$ 2,223,892
Accounts payable	860,261	1,968,355
Accrued expenses	3,408,024	2,978,478
Estimated third-party payor settlements	<u>--</u>	<u>--</u>
Total current liabilities	4,268,285	7,170,725
Long-Term Debt, Net	23,015,000	16,374,894
Deferred Inflows of Resources:		
Deferred revenue	2,227,052	2,198,072
Net Position	<u>34,696,567</u>	<u>34,721,685</u>
	<u>\$ 64,206,904</u>	<u>\$ 60,465,376</u>

See Independent Auditor's Report.

<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 1,483,346	\$ 3,281,325	\$ 2,068,407
7,289,679	6,556,588	4,922,287
1,145,220	1,174,046	1,220,454
136,619	158,581	222,703
--	--	--
1,800,000	1,790,000	1,790,000
<u>1,200,000</u>	<u>1,080,000</u>	<u>760,151</u>
13,054,864	14,040,540	10,984,002
4,797,187	5,382,324	6,437,214
29,599,675	24,049,490	23,993,911
<u>129,561</u>	<u>93,187</u>	<u>23,729</u>
<u>34,526,423</u>	<u>29,525,001</u>	<u>30,454,854</u>
<u>\$ 47,581,287</u>	<u>\$ 43,565,541</u>	<u>\$ 41,438,856</u>
\$ 1,194,508	\$ 876,317	\$ 834,360
2,995,677	689,501	653,718
2,367,954	2,341,136	1,931,587
<u>270,000</u>	<u>718,000</u>	<u>371,000</u>
6,828,139	4,624,954	3,790,665
5,550,607	4,592,193	5,468,510
1,800,000	1,790,000	1,790,000
<u>33,402,541</u>	<u>32,558,394</u>	<u>30,389,681</u>
<u>\$ 47,581,287</u>	<u>\$ 43,565,541</u>	<u>\$ 41,438,856</u>

MAHASKA HEALTH PARTNERSHIP
Comparative Statements of Revenues and Expenses
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Patient Service Revenue	\$ 87,065,694	\$ 71,116,127
Adjustments to Patient Service Revenue	<u>(38,437,908)</u>	<u>(31,701,849)</u>
Net Patient Service Revenue	48,627,786	39,414,278
Other Revenue	<u>684,370</u>	<u>598,992</u>
Total Revenue	49,312,156	40,013,270
Expenses	<u>51,241,204</u>	<u>41,016,468</u>
Operating Loss	(1,929,048)	(1,003,198)
Non-Operating Revenue, net	1,903,930	2,322,342
Capital Grants and Contributions	<u>--</u>	<u>--</u>
Excess of Revenues Over (Under) Expenses	<u><u>\$ (25,118)</u></u>	<u><u>\$ 1,319,144</u></u>

See Independent Auditor's Report.

<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 63,650,838	\$ 59,617,463	\$ 53,457,659
<u>(27,500,741)</u>	<u>(25,855,261)</u>	<u>(22,423,571)</u>
36,150,097	33,762,202	31,034,088
<u>373,521</u>	<u>390,732</u>	<u>287,157</u>
36,523,618	34,152,934	31,321,245
<u>37,609,644</u>	<u>34,963,123</u>	<u>32,370,762</u>
(1,086,026)	(810,189)	(1,049,517)
1,930,173	2,429,936	2,494,620
<u>--</u>	<u>548,966</u>	<u>1,600,000</u>
<u>\$ 844,147</u>	<u>\$ 2,168,713</u>	<u>\$ 3,045,103</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Mahaska Health Partnership
Oskaloosa, Iowa

We have audited the financial statements of Mahaska Health Partnership as of and for the year ended June 30, 2014, and have issued our report thereon dated November 14, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mahaska Health Partnership's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Mahaska Health Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Mahaska Health Partnership

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 14-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mahaska Health Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Response to Findings

Mahaska Health Partnership's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Hospital's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cornwall, Ben, Ryhnn & Co. P.C.

Atlantic, Iowa
November 14, 2014

MAHASKA HEALTH PARTNERSHIP
Schedule of Findings
Year ended June 30, 2014

PART I - INTERNAL CONTROL DEFICIENCIES

14-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This deficiency is common among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

14-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2014 did not exceed amounts budgeted.

14-II-B Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Bradbury Hall, William Penn, The Snacks, Oskaloosa Chamber	Employee recognition banquet	\$ 6,069

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

MAHASKA HEALTH PARTNERSHIP
Schedule of Findings - Continued
Year ended June 30, 2014

PART II - REQUIRED STATUTORY REPORTING - Continued

14-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

14-II-D Business Transactions: During our audit, we noted no business transactions with Hospital employees or officials.

14-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

14-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

* * *